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MATTERS RELATING TO THE PROGRAMMING CYCLE

Conceptual paper on issues relating to the sixth programming cycle

Report of the Administrator

I. INTRODUCTION

1. Following extensive discussion of the report of the Administrator on matters relating to the programming cycles (DP/1993/21), the Governing Council requested, in its decision 93/24 of 17 June 1993, that a conceptual paper on issues relating to the sixth programming cycle be submitted at its forty-first session. The present report represents an important stage in an extended consultative process that is currently scheduled to culminate in June 1995 with the establishment of a framework for the sixth UNDP programming cycle. 1/

2. Since July 1993, the Administrator has consulted extensively with Governments about UNDP's broad mission, future goals and agenda for change. The Administrator's presentation to the Executive Board in February 1994 highlighted the rationale for these changes, the new approaches to development cooperation, in line with various legislative mandates, and the Programme's emerging mission and operational goals. In his paper entitled "Initiatives for change" (DP/1994/39) submitted to the Executive Board at its current session, the Administrator reports further on the future agenda for UNDP, including his continuing consultations on this subject with Governments and with UNDP Resident Representatives at the March 1994 global meeting.

3. In this broader context, the present paper provides an overview of the origin and evolution of the programming cycle concept; analyses trends and issues that have emerged over the years, particularly during the present cycle; and identifies their implications for the sixth cycle or other successor arrangements for future programming. Thus, the paper is meant to advance the discussion of these matters by the Executive Board and to elicit feedback and

guidance. Following the current session, the Administrator expects to hold further consultations and carry out more detailed technical studies as part of the process leading up to decisions regarding the sixth cycle to be adopted by the Board at its annual session, in June 1995.

II. ORIGINS AND EVOLUTION OF THE PROGRAMMING CYCLE CONCEPT

4. The establishment of a cycle permits the UNDP governing body, on a periodic basis, to set certain programming priorities, arrive at a consensus about the provision of resources and their distribution, and grant financial authority to continue programming. The original structure of the first programming cycle was based on the principles contained in General Assembly resolution 2688 (XXV) of 11 December 1970 (the Consensus resolution), which included: voluntary contributions to a central "core" fund; a five-year framework intended to help Governments integrate technical cooperation support in their own national plans; the assignment of indicative planning figures (IPFs) to provide some degree of predictability in the level of funding; and programming of IPFs in line with national priorities as set out in the country programme document. Although significant changes have been made over time to this approach, key aspects have been retained in the approval of successive cycles, which served to maintain programme continuity.

5. However, cumulative changes in the programming environment now necessitate a reassessment of the basic underpinnings of the cycle structure against present realities. These considerations include the following:

(a) Voluntary contributions to UNDP core resources (the only resources governed by programming cycle parameters) are no longer as large a part of UNDP overall resources, given the increases in earmarked, special purpose and cost-sharing funds flowing to UNDP, especially in recent years. Although the share of UNDP activities financed by core voluntary contributions has declined, the core programme remains sine qua non for UNDP

(b) The current system has proven an inadequate predictor of resources available to countries over the cycle as the growth targets for contributions set by the Governing Council have not been fulfilled. The partial funding mechanism, whereby programming and forward commitment of funds are based on expected levels of future voluntary income, poses fiscal and programmatic risks, demanding elaborate monitoring and control systems, and responsive programme build-up and restraint mechanisms;

(c) Central planning with fixed, five-year time-frames has fallen from favour in many parts of the world and is frequently superseded by structural adjustment and other national programmes of shorter duration. Also, it often seems more chance than design when the UNDP five-year programming cycle coincides with a Government's planning cycle, other United Nations agency programme time-frames, or even the years covered by individual UNDP country programmes;

(d) The General Assembly, in its resolutions 44/211 and 47/199, and the Governing Council, in various legislation, have set in motion a process of major

reform in the United Nations system operational activities, including: the introduction of the programme approach; the country strategy note; strengthening the Resident Coordinator role; national execution; new support cost arrangements; and areas of programme concentration. In order to respond to these requirements, UNDP must be able to play a larger, more demanding role to support the coordination and effectiveness of the overall United Nations operational system at the country level. Country resources need to be programmed, at least in part, with the effective delivery of overall United Nations development assistance in mind;

(e) The pattern of Official Development Assistance (ODA) resource flows has shifted significantly in recent years, with a declining share of ODA going to the United Nations system. Resources are increasingly needed for emergency, humanitarian and peace-keeping purposes, sometimes reducing support going to long-term development activities. Also, many new participants have entered the technical cooperation field, and international finance institutions have greatly expanded their technical cooperation activities. At the same time, the role of UNDP as a central fund for the United Nations system has eroded, with UNDP resources no longer representing as large a share of United Nations system expenditures for technical cooperation as in the 1970s. The specialized agencies have sought and often received funding for their own technical cooperation activities;

(f) Lastly, there has been a considerable shift of programme resources to low-income countries. This has meant that remaining IPF resources are spread very thinly among the other eligible countries, which limits the degree to which they can participate, access assistance, and, importantly, use UNDP support as a catalyst for mobilizing additional resources.

6. The above overview indicates that the next UNDP programming period cannot easily be extrapolated from the structure of previous cycles, and, indeed, that the very concept of a fixed, five-year cycle needs to be reviewed. The present environment may well call for a more complex model that would incorporate financing mechanisms and resource distribution and management considerations into a broader framework for the next programming period.

7. The issues introduced above and others are explored in greater detail in sections III-V below, which analyse key trends and issues that have emerged over the history of the programming cycles and identify their implications for establishing the next programming framework. This review covers the three interrelated components that have characterized the first five cycles: programming objectives; financing mechanisms; and resource distribution.

III. PROGRAMMING OBJECTIVES: TRENDS, ISSUES AND IMPLICATIONS

8. The original parameters for the programming cycle envisaged the five-year country programme, formulated jointly by Governments and UNDP and subject to Governing Council approval, as the main framework for all assistance. Integrated programming of resources over an extended period of time, using the country programme as the main frame of reference for all United Nations/UNDP assistance to a country, was intended to be the major programming thrust for the

first and later programming cycles. This process was designed to help realize national development priorities.

9. From the early 1980s, there has been increasing concern on the part of various countries that unrestricted use of IPFs for disparate purposes had led to a scattering of assistance, with the consequent loss of programme focus and impact. Indeed, in its decision 92/28, the Governing Council specifically requested the Administrator to "continue to increase the focus of country programmes on a smaller number of concentration areas according to recipient country needs", taking into account the comparative advantages of UNDP. The table in the annex provides a comparative picture of the sectoral distribution of UNDP resources over the first five programming cycles. It shows that UNDP resources are indeed distributed widely over a large number of areas even though there has been a marked increase in the share of resources allocated to the upstream areas of aid coordination and management. However, UNDP does not believe that the categories and framework for data collection used in the table allow adequate depiction or analysis of UNDP programming. Accordingly, the current framework is being reviewed to permit more accurate and appropriate analyses.

10. Since the early 1980s, many Governments have urged greater use of UNDP funds and other ODA to support country efforts to reach development goals agreed to in international forums. Simultaneously, the support of ODA in donor countries has increasingly centered on certain objectives or themes, such as poverty elimination.

11. The trends described above culminated in the establishment by the Governing Council in its decision 90/34 of six thematic areas of focus for the fifth cycle and an increased financial earmarking, through the Special Programme Resources (SPR), to promote these areas of focus. The Council emphasized more rigorous procedures for country programme formulation, approval and subsequent reviews, reserving an important role for itself in overseeing the process.

12. UNDP has also achieved significant increases in mobilizing non-core funds through cost-sharing arrangements and trust funds. These increases in non-core funds in UNDP reflect an overall trend in both bilateral and multilateral ODA towards earmarked or targeted support. The growth of non-core funds also illustrates some donors' preference for specific thematic or cross-cutting programmes (e.g. the environment, women, governance) as compared to the more open-ended programming, as noted above.

13. In his presentation to the Executive Board in February 1994, the Administrator referred to the lack of focus and clarity of mission in UNDP activities. He reiterated that resources had been spread too thinly over a wide range of activities, leading to inefficiency and unevenness in performance and impact. He proposed that UNDP strengthen and focus its programme for maximum effect and also proposed guidelines for doing so that built on prior decisions of the Governing Council.

Implications for the sixth cycle: programming objectives

14. It is clear from the above that increased focus to avoid "scatterization" and to enhance impact and accountability for results should constitute a major objective for sixth-cycle programming. The Administrator has proposed that, within the overall framework of sustainable human development, four objectives - poverty elimination, environmental regeneration, job creation, and advancement of women and other disadvantaged groups - should constitute complementary and synergistic themes for UNDP programmes. These themes are based on the areas of focus established in Governing Council decision 90/34 and on the expressed priorities and goals of programme countries. Governing Council decisions and country priorities have also provided guidance on the means UNDP can utilize to support countries in meeting their sustainable human development objectives. Ten such interventions, which are based on UNDP mandates, have been proposed: (a) help build government capacity for aid coordination; development management, programme implementation and public sector reform; economic management and market reforms; and the protection of human rights, elections and independent judiciaries; (b) provide support for the development of sustainable human development operational frameworks that can, inter alia, link and make better use of other planning requirements associated with ODA; (c) support Governments in identifying, designing and implementing long-term development programmes, including strategies and action plans; (d) mobilize, package and promote access to financial resources; (e) promote technology transfer and the adaptation and access to the latest technology; (f) support technical cooperation among developing countries; (g) promote capacity-building in civil society, grass-roots development, participatory approaches and the empowerment of people, and work in close partnership with non-governmental organizations (NGOs) and community-based organizations (CBOs); (h) support high-leverage, downstream projects to validate policy ideas, demonstrate grass-roots success, or launch major programmatic initiatives, (i) forge North-South partnerships and reach needed international agreements; and (j) provide integrated support for national and regional processes of reconciliation, peace building, and reintegration.

15. This framework has important implications for programming in the sixth cycle or other successor arrangements. It is expected to bring about a powerful focus to UNDP programmes and result in a significant increase in their impact and effectiveness.

IV. FINANCING MECHANISMS: TRENDS, ISSUES AND IMPLICATIONS

16. From the first programming cycle, voluntary contributions to the central core fund have constituted the principal financing mechanism for UNDP. During the 1970s, the virtues of such a core fund were generally extolled and donors were exhorted to contribute to the central fund rather than to special purpose trust funds. The programming cycle framework established by the Council is implicitly assumed to apply only to IPF, SPR and other core-funded activities.

17. While voluntary contributions to the core fund continue to constitute the central basis on which the activities of UNDP are carried out, they have stagnated in recent years. In contrast, non-core resources expanded considerably during the 1980s, reflecting a global trend towards earmarking of

ODA. The problems of planning and programming these changing resource flows carry significant implications for the sixth cycle. A brief description of the trends and issues surrounding core and non-core resources and their implications for the sixth cycle is provided in the two subsections below.

A. Core resources

18. Financial planning and the management of core resources have been subject to considerable complexity and uncertainty. While donor countries continue to make annual, voluntary contributions (despite various attempts to encourage multi-year pledging), forward planning and budgeting extend over a multi-year period. Critical to the successful operation of the system is agreement on resource mobilization targets for voluntary contributions, which have traditionally been a major point of negotiations in deliberations on programming cycles. Programme countries have tended to view the negotiated target growth rate as a commitment the donor community makes in order to reach agreement on various other programming stipulations, including programme focus and the resource distribution methodology.

19. However, annual growth rates actually achieved in past cycles have fallen short of their targets. For the first four completed cycles, the target and actual rates were respectively 9.6 per cent versus 18.7 per cent (first cycle); 14 per cent versus 8.9 per cent (second cycle); 14 per cent versus 3.1 per cent (third cycle); and 8 per cent versus 6.4 per cent (fourth cycle). Thus far in the fifth cycle, resources have declined at an annual average rate of 4.3 per cent compared to the 8 per cent growth rate target originally established. For the most part, the negotiated targets have proven to be overly optimistic.

20. In this connection, it should be noted that exchange rate fluctuations vis-à-vis the national currencies have been a significant factor in the actual growth (or decline) of contributions. For instance, in the fifth cycle, even though the overall decline in contributions has been 4.3 per cent, the actual decline in national currencies amounted to only 2.9 per cent, with the remaining 1.4 per cent attributable to the change in value of the United States dollar vis-à-vis other national currencies.

21. Given these fluctuations in resource levels, it is not surprising that the IPF system has not proven to be a good predictor of actual programming levels. For instance, 98 per cent of the planned IPFs were delivered in the second cycle; 51 per cent in the third; 112 per cent in the fourth; and if present trends continue, approximately 70 per cent will be delivered in the fifth cycle. Over the cycles, this volatility has obliged UNDP to institute elaborate methods to monitor and control financial commitments and adjust programme build-up.

22. Thus, while the five-year time span of the programming cycle and the IPF system were instituted to provide Governments with some degree of funding predictability, this expectation has not been fulfilled.

23. Over the years, the partial-funding nature of the financing system has exposed UNDP to certain programmatic and financial risks since project

commitments are made for future years without necessarily having firm cash resources to cover them at all times. The degree of partial funding can be measured by computing the percentage of forward commitments at the beginning of a calendar year that are covered by programming resources available from that year's annual voluntary pledges. In 1987, this was 71 per cent; it fell to 63 per cent during the years 1988-1990; and for 1992-1994, it fell further to 55 per cent. In other words, 55 per cent of the programme budgets outstanding as of January 1994 were covered by programming resources available from 1994 voluntary pledges.

24. Finally, the donor base for voluntary contributions to UNDP continues to be narrow. As almost 83 per cent of core resources are provided by 10 major contributors, the programme is extremely vulnerable to reduced contributions from any one major donor. Thus, while the system of voluntary pledges offers the greatest flexibility to donors, it has proven to be a volatile financial mechanism for the programme. In this context, it is worthwhile to note that 10 programme countries make voluntary contributions of $1 million or more to the core resources of UNDP.

B. Non-core funding

25. In the early cycles, the mobilization of non-core funds was not a priority. In fact, the Governing Council had originally limited cost-sharing funds to only 30 per cent of a country's total IPF so that the main programming thrust of IPF-funded programmes would not be distorted by cost-sharing activities. However, relative declines in core funding combined with increasing donor preference for special purpose funds fostered a recognition of the growing importance of non-core funding. Consequently, the restriction on cost-sharing was removed altogether in 1983, and, as another measure designed to increase non-core contributions, the Administrator was also permitted to establish trust funds under his own authority.

26. Contributions to trust funds and cost-sharing expanded during the 1980s and are projected to increase considerably during the fifth cycle, as can be seen from the diagram in the annex. 2/ Current estimates indicate that non-core programme funding (cost-sharing and trust funds) over the period of the fifth cycle is expected to amount to almost 89 per cent of the value of core programme funding, as compared to 28 per cent during the years of the fourth cycle. Thus, for every $100 programmed from core funds in the fifth cycle, UNDP is also programming $89 of non-core funds.

27. It may be useful to analyse briefly the components of non-core programme resources under two categories: cost-sharing; and trust funds and other special purpose funds (including the United Nations Capital Development Fund (UNCDF), the United Nations Sudano-Sahelian Office (UNSO), the Global Environment Facility (GEF), the Montreal Protocol, CAPACITY 21, and other funds established by the Administrator for specific purposes). The resource base for non-core programme funds in the fifth cycle is equivalent to 89 per cent of core programme funds, of which 54 per cent is attributable to cost-sharing and 35 per cent to trust and other funds. The diagram in the annex illustrates the relative magnitude of the funds involved.

28. The cost-sharing base of 54 per cent is further divided into (a) 48 per cent for country-level activities and (b) 6 per cent for intercountry activities. The contributions for (a) are provided partly by host Governments (41 per cent) and partly by third-party donors (7 per cent) whereas the contributions for (b) are received mostly from third-party donors. Cost-sharing activities are concentrated mostly in middle-income countries (38 per cent) and funded by those countries. In contrast, the balance of 10 per cent assigned to low-income countries is received almost equally from third-party donors and those countries.

29. The Latin American and Caribbean region has been particularly successful in mobilizing significant amounts of cost-sharing contributions in the fifth cycle. Host Governments have provided over 64 per cent of the cost-sharing funds, a reflection of the trust placed by these Governments in the unbiased and neutral advice provided by UNDP as well as the efficiency of the services provided at the country level. An important source for cost-sharing has been multilateral institutions such as the World Bank and the Inter-American Development Bank, which have called upon UNDP for assistance in improving the implementation of activities they finance.

30. The significant increases in non-core funding are a result of targeted efforts to mobilize resources that might otherwise have not been channelled through UNDP and its main programmes. It must be emphasized, however, that mobilizing non-core resources very much depends on the availability of a minimal input of core resources (from IPF, SPR, or in the broadest sense, the UNDP biennial budget that supports the country office network). The commitment of relatively small amounts of core resources is crucial to UNDP fulfilling its coordination role and helps to galvanize support from a wide variety of existing and potential ODA flows, including multilateral, bilateral and national sources.

Implications for the sixth cycle: financing mechanisms

31. The core funds of UNDP have been, and will continue to constitute, the primary financial underpinning for UNDP and its country programmes. These resources provide the fundamental support needed for maintaining UNDP's extensive network of country offices, which indeed serves also as the basic infrastructure for the United Nations development system as a whole. The continuation of a core programme, at an increasing and predictable level during the sixth cycle or successor arrangements, is considered vital.

32. The analysis presented above, however, suggests that the current IPF system, based on five-year planning but financed from annual voluntary contributions, is subject to considerable financial and programmatic risks. It would be useful to examine appropriate mechanisms to minimize such risks.

33. First, the notion of the IPF, literally conceived as an indicative figure used for planning purposes only, has been perceived over the cycles as an entitlement, and equated with actual resources. It may be necessary to re-emphasize the original definition of the IPF as a planning figure, which would be firmed up in annual segments, only as resources materialize.

34. Second, minimizing financial risks under the current system implies limiting financial commitments for future years in that resource projections for those years carry the greatest uncertainty. Thus, reducing the planning horizon (say, from five to three years) would have the effect of reducing financial exposure.

35. Third, the IPF has proven to be a poor predictor of resources and programming levels partly because it is a static figure, established five years in advance and revised infrequently. The implication of this is that more frequent and dynamic revisions of the IPF framework, to reflect actual resource availability, may bring the system more in line with operational realities. A rolling IPF scheme, revised annually, might constitute a solution to this problem.

36. More generally, financial mechanisms other than the current voluntary funding modalities are also under review. In this connection, attention may be drawn to General Assembly resolution 48/162, in annex I of which it is stated that "as part of the overall resource process, there is a need for a substantial increase in resources for operational activities for development on a predictable, continuous and assured basis, commensurate with the increasing needs of developing countries". In the same resolution, the Secretary-General is requested "to review and analyse possible changes and improvements in the present funding system, including, but not limited to, multi-year negotiated pledges, and to submit a report with his recommendations in April 1994". In response to this resolution, a study has been carried out by the United Nations in consultation with the various funding agencies and programmes. The study has addressed the feasibility and advantages/disadvantages of major funding mechanisms, including the system of voluntary pledges; assessed contributions; replenishment system; negotiated pledges; and a range of mixed funding mechanisms, such as those proposed in the Nordic United Nations Project entitled "The United Nations in Development", published in 1991.

37. UNDP experience in the last two decades suggests that a financing mechanism should: (a) provide an increasing level of resources commensurate with the needs of developing countries and the funding targets established in specific development areas by various global compacts and agreements, such as Agenda 21; (b) ensure a predictable level of contributions for multiple years; and (c) within this framework, work towards equitable burden-sharing over a wide range of contributing countries, taking into account their global and bilateral responsibilities.

38. As stated earlier, UNDP has evolved a variety of funding mechanisms to mobilize non-core resources without compromising the voluntary nature of its core financing. Given the increases in non-core resources and the potential for accessing additional ODA not presently available to UNDP, it will be necessary to continue to establish financial mechanisms that will enable UNDP to tap into those resources and channel them for integrated programming together with core funds. Additionally, the identification and marketing of an array of UNDP products (such as the Development Programme for Displaced Persons, Refugees and Returnees (PRODERE) initiatives) and the establishment of thematic funds in the UNDP focus areas may also serve as mechanisms to mobilize resources for these areas.

39. The discussions in the General Assembly and other forums would certainly have an impact on the nature of the financing mechanisms to be used in the sixth cycle. UNDP intends to participate fully in these discussions, bringing to them both its experience in the last two decades, as well as the needs it foresees for the future.

V. RESOURCE DISTRIBUTION: TRENDS, ISSUES AND IMPLICATIONS

40. Resource distribution issues have monopolized much of the discussion leading to the establishment of programming cycles. The current methodology for resource distribution and the main issues emerging from its application are crucial to the present analysis and are outlined below. 3/ The diagram in the annex provides a comparative overview of resource distribution over the cycles, from which the following trends may be noted:

(a) The decline in core resources as a share of overall UNDP resources; and the increased importance of non-core funds;

(b) The increasing share of the SPR;

(c) The erosion in the share of resources flowing to regional programmes; and

(d) The shift of resources to low-income countries and away from middle-income countries.

41. The analysis below deals with three areas: (a) methodology for distribution of programme resources as country IPFs; (b) eligibility and graduation policy; and (c) SPR and intercountry earmarkings.

A. Distribution methodology for country IPFs

42. The resources available for country IPFs are distributed in accordance with the formula approved by the Governing Council based on gross national product (GNP) per capita and population and a set of supplementary criteria. In the fifth cycle, 75 per cent of country IPF allocations were based on GNP per capita and population, and 25 per cent on supplementary criteria.

43. Over the cycles, the Governing Council agreed on specific weights to be applied to the raw per capita GNP and population data. In general terms, the share for each country is calculated with greater weight given to lower incomes and higher populations. Applying varying weight coefficients to these factors at different thresholds allows resources to be shifted from one group of countries to another.

44. Countries that face special obstacles to development are awarded supplementary points that translate into additional IPFs. Supplementary criteria played a relatively minor role in the first three cycles but the list was expanded in the later cycles, with 10 criteria used in the fifth cycle. 4/

45. The Governing Council's main objective in the distribution of country IPFs has been what may be termed progressivity, whereby a higher proportion of resources are allocated to lower-income countries. The impact of the application of this principle over time becomes apparent from the diagram in the annex. The 66 countries with GNP per capita currently below $750 were assigned 70 per cent of total core programme resources in the fifth cycle (or 87 per cent of country IPFs), compared to 46 per cent in the first. 5/ Similarly, total core programme resources allocated to countries currently assigned least developed country (LDC) status amounted to 48 per cent in the fifth cycle (or 59 per cent of country IPFs), compared to 28 per cent in the first. As a result of the increased allocation to low-income countries, the resources allocated to the other countries (i.e., countries whose GNP per capita exceeds $750) have been greatly reduced. Thus, 109 countries in the middle-income group are allocated 10 per cent of total core programme resources.

46. There has also been a marked shift in the distribution of IPF resources among regions from the first to the fifth cycles. The share of resources assigned to sub-Saharan Africa went from 29 per cent to 44 per cent from the first to the fifth cycles; from 25 per cent to 35 per cent for Asia and the Pacific; from 22 per cent to 8 per cent for Latin America and the Caribbean; from 14 per cent to 7 per cent for Arab States; and from 7 per cent to 2 per cent for Europe.

47. It is in the area of resource distribution that technical studies are most required and indeed already advanced. For instance, it has been suggested that alternate indicators such as the human development index (HDI) and/or GNP based on a purchasing-power parity (PPP) approach may be better at capturing real development needs. Consultations with various specialists indicate that the HDI is not considered technically viable at this stage for resource distribution purposes. Similarly, the World Bank and others have indicated that GNP data based on the purchasing-power parity approach are still not yet reliable enough, nor the coverage of countries extensive enough, to be used in a resource allocation model.

B. Eligibility and graduation

48. The Executive Board grants recipient status to a country upon application, based on assessment of its need for technical cooperation. While granting recipient status reflects acknowledgement of the need for development assistance in the country concerned, this status does not in itself guarantee resources to fund such assistance. The distribution methodology embodies within it the concept of graduation, whereby recipient countries achieving higher level of GNP per capita, and therefore a greater "ability to pay", receive proportionately lower IPFs, and eventually "graduate" to become net contributor countries (NCCs).

49. It may be recalled that graduation to NCC status occurs, in the current system, when the GNP per capita of a country exceeds a threshold level of $3,000 ($4,200 for island developing countries with populations under 2 million). For countries accorded NCC status and whose GNP per capita lies in the range $3,000-$6,000 ($4,200-$7,500 for island developing countries) an IPF is computed.

However, such an IPF is considered reimbursable. Advances can be drawn against this IPF and reimbursements made subsequently in annual segments. For NCCs whose GNP per capita exceeds $6,000 ($7,500 for island developing countries), an IPF is not established. In both cases, the costs of a UNDP country office are to be borne by the country concerned. However, the costs of the Resident Representative are borne by UNDP when the programme in that country (funded by host government sources) exceeds $10 million for the cycle. The cost of a Deputy Resident Representative may also be covered by UNDP if the size of the programme exceeds $15 million.

50. In the fifth cycle, 21 countries are designated NCCs, 10 of which have been accorded a (reimbursable) IPF. Nine NCCs are served from UNDP offices located in their countries. The total IPFs of the 10 programmes amount to $10 million.

51. Despite their higher levels of GNP, many NCCs continue to require technical cooperation geared to their stage of development and specific needs. While these countries can obtain needed assistance through other modalities (e.g., the private sector), they frequently choose to access the required assistance through UNDP and the United Nations specialized agencies. Not only do such arrangements offer obvious links to global networks and standards of expertise but they also offer certain advantages in terms of neutrality, transparency, accountability and proven effectiveness (e.g., in assisting implementation of non-performing loans).

52. UNDP continues to encourage NCCs and potential NCCs to build programmes funded from their own resources. The presence of UNDP country offices in the NCCs, financed from host government contributions, contributes to the global coverage and universality of UNDP (thus facilitating the Resident Coordinator function), promotes global compacts and priorities; helps provide technical and policy support to the Governments concerned; facilitates the sharing and cross-fertilization of development experience among countries; and permits these countries to participate in international networks and systems. It is also recognized that many NCC countries are already, or may soon offer the potential of becoming, major contributor countries.

53. Despite the desire of NCCs to continue to access United Nations system expertise, upon graduation these countries often find the provisions for local office costs and programme financing punitive and abrupt, offering little incentive to mobilize national or third-party programme funding.

54. Many countries (mainly those with low and/or declining IPFs) believe that increased "progressivity" in the distribution of IPF resources brings resources assigned to the middle-income countries below the critical mass needed for these funds to attract additional development support from national as well as third-party sources. Such countries contend that this increasing marginalization breaches the organization's universality principle and prevents them from accessing assistance available through UNDP programming channels.

55. It should also be noted that several NCCs and potential NCCs, which currently enjoy an IPF, have built up programmes of considerable magnitude, ranging from five to ten times their IPFs. In these cases, the use of IPFs,

however small, has been instrumental in mobilizing significantly larger resources for financing UNDP programmes in these countries.

C. SPR and intercountry earmarkings

56. Within the broad financial framework for core programme funds, expected resources are apportioned into two broad categories: IPFs for country and intercountry programmes and the SPR. While in the earlier cycles, only a modest amount was assigned to the SPR, this increased significantly to 7 per cent of core programme resources in the fifth cycle, compared to 4.9 per cent in the fourth cycle and 1.7 per cent in the third cycle. At its increased level, as shown in the report of the Administrator on the mid-term review of the fifth programming cycle (DP/1994/18), the SPR is proving to be a powerful tool for innovation. Based on experience so far, the Administrator intends to make the SPR more responsive to country-level needs and to decentralize its management to the Regional Bureaux and UNDP country offices.

57. Within the overall allocations for IPFs, separate earmarkings are made for regional, and interregional and global programmes. In the fifth cycle, 13 per cent of programme resources were allocated to intercountry IPFs. The intercountry share is in turn allocated into global/interregional and regional shares, which were 4 and 9 per cent of core programme resources respectively in the fifth cycle.

58. The regional IPFs were reduced significantly in the fifth cycle in order to increase the allocation to LDCs. In operational terms, this reduction has led to severe cutbacks in some regional programmes and has therefore limited regional programme initiatives, leaving many regional needs unmet. UNDP regional and interregional and global programmes are a major area of strength and comparative advantage of UNDP as a grant-based institution.

Implications for the sixth cycle: resource distribution

59. As the subject of resource distribution is likely to continue to be of major concern to all Governments, the following implications may be of relevance.

Distribution methodology

60. The present methodology for prior distribution of resources is based on objective data, including GNP per capita and population, indicators that have proven very useful for achieving progressivity in the resources allocated to low-income countries. However, these indicators are said not to reflect a full range of development needs and achievements. This implies a need to examine various proposals that have been made to include social and economic indicators other than income and population in the resource distribution methodology.

61. First, while alternative indicators such as the HDI and PPP may be better suited to determine development needs and achievements (and hence to distribute development resources), for reasons explained earlier it may not be presently viable to use these indexes for this purpose.

62. Second, the list of supplementary criteria might be expanded to include additional indicators designed to measure advances made by Governments in addressing gaps in various human development dimensions over a period of time.

63. Third, it would be possible to modify the weights assigned to the various factors used in the methodology. For instance, in the overall IPF calculations, supplementary criteria have a weight of 25 per cent, and GNP and population, 75 per cent; these percentages could be adjusted to give more weight to supplementary criteria. Within the group of supplementary criteria, the number of points assigned to each can be used to adjust the weight of an individual criterion. Similarly, the proportionate weights for different levels of GNP per capita could be modified.

64. At this stage, it appears that a judicious combination of the GNP/population determinants together with an expansion of the supplementary criteria and an adjustment of various weights would help meet the objectives of using alternate indexes. Further work would need to be done to identify and assess appropriate criteria and establish an appropriate combination of thresholds, points and weights.

Eligibility and graduation implications

65. In the next programming period, it will be important to strive for progressivity in the resources allocated to low-income countries while still preserving the universality of programme participation by providing a minimum, critical mass of support to middle-income countries, which they can in turn use to mobilize additional resources.

66. Given the thresholds for NCC status, it is estimated that 37 countries would graduate and achieve NCC status in the sixth cycle, representing an increase of 16 programmes over the fifth cycle. The current IPFs of these 16 potentially new NCC countries currently amount to $55 million or 1.5 per cent of total IPFs.

67. It is interesting to examine the implications of increasing the NCC thresholds for the sixth cycle to, say, $4,700, which represents the World Bank graduation level. It is estimated that using this threshold, a total of 27 countries would qualify as NCCs in the sixth cycle, an increase of 6 countries over the present 21 NCCs. The current IPFs of these six potentially new NCCs amount to $16 million or 0.5 per cent of total IPFs.

68. The 16 potentially new NCC countries mentioned in paragraph 66 have currently built up over $500 million in UNDP programmes in their countries, financed from non-IPF sources. There is some concern that obliging these countries to reimburse their IPFs in the future may diminish the catalytic role served by the IPF resources in such countries, and indeed jeopardize mobilization of resources for the larger programme. If so, as an incentive to such mobilization, the degree of reimbursability of the IPF could be linked to the size of the non-IPF programme. Thus, reimbursability may be waived if the magnitude of the total programme exceeds a certain multiple of the IPF.

SPR and intercountry earmarkings: implications

69. The size of the SPR allocation will be a crucial variable of the sixth programming cycle, as these funds could be used to sponsor, at the country level, innovative, pioneering approaches to development issues of global importance. Similarly, the allocation of resources to intercountry and regional programmes will permit UNDP to support initiatives that are best addressed at regional or global levels, rather than at the country level alone. As experience has shown, regional and global initiatives can lead to the mobilization of large resources for country-level programming.

70. Another approach to resource allocation more geared to thematic funds would not require a priori distribution of resources. Earmarking of funds would occur in line with the purposes of the fund and as needs are identified. However, the Administrator could be requested to maintain a rough equity in distribution of resources to individual countries and regions over a period of time.

VI. SUMMARY AND FUTURE DIRECTIONS

71. It is evident from consultations so far and the discussion in the present report that the structure of the next programming cycle could differ significantly from the previous cycles. It would appear, however, that it should include, at a minimum, the following basic features:

(a) Programme focus on sustainable human development and, within that framework, an increased focus on key development goals and capacity-building and other means in their achievement;

(b) Continuation of the universality principle, by which the participation of all programme countries in UNDP activities is ensured;

(c) Establishment of effective programming and financial mechanisms to mobilize resources to support UNDP programmes in the areas of focus, and for their prudent management; and

(d) Improved criteria for access to programme resources and for their effective deployment.

72. The present report represents a contribution to the continuing and iterative process of establishing the structure of the next programming period. Following the Executive Board's consideration of the conceptual issues and future directions presented here, work would continue on elaborating a number of technical studies, and advancing the consultative process between the Administrator and programme participants. This would ultimately permit the elaboration of appropriate options for each of the major elements of the framework as well as for their combination into an overall structure for the next programming period.

VII. EXECUTIVE BOARD ACTION

73. The Executive Board may wish to:

Consider the issues outlined in the present report and provide guidance thereon.

Notes

1/ The term "sixth programming cycle" is used in the present report to describe any successor arrangements to the fifth programming cycle that the Executive Board may approve for future programming of UNDP resources.

2/ The core resource base for each cycle is "re-based" to 100 and then divided proportionately into its various distribution components. Thus, the dollar magnitude of the cycles and their components cannot be compared.

3/ The present methodology for the distribution of UNDP core programme resources emerged from a considerable negotiation process in the mid-1970s (leading to the second programming cycle). With some modifications, this methodology has continued through to the fifth programming cycle.

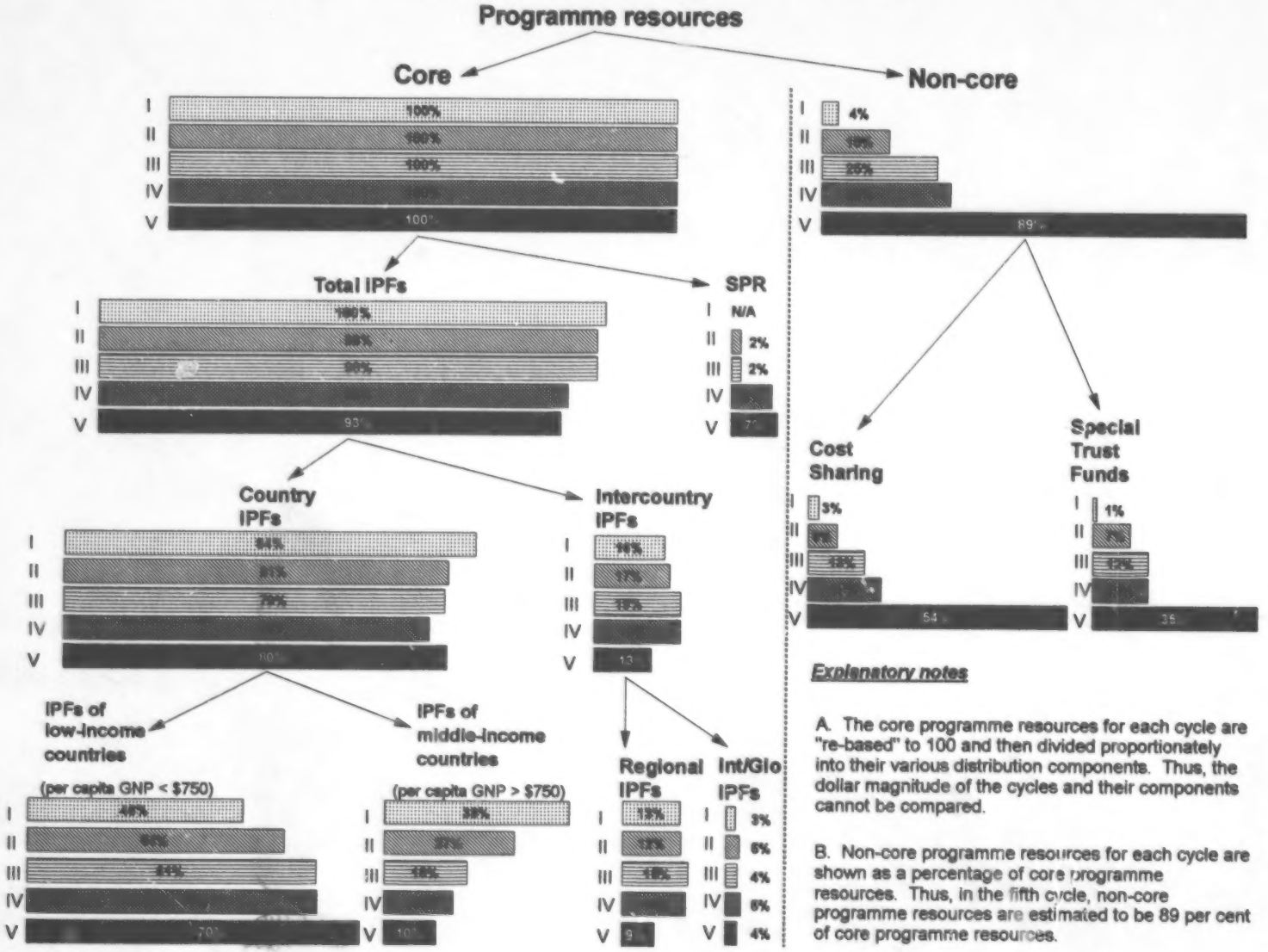
4/ These criteria include the following: least developed country (7 points); land-locked (1 point); island developing (1 point); independent after 1985 (1 point); economically disadvantaged countries in southern Africa (1 point); ecological or geographic disability, or disaster prone (2 points); severely or moderately indebted (2-4 points); terms of trade declined in recent years (1 point); decline in GNP per capita exceeded 30 per cent (1983-1989) (1 point); and economy in transition (1 point).

5/ The cycle-by-cycle percentage share progression for countries below $750 per capita GNP is 46 in the first cycle, 54 in the second, 61 in the third and fourth and 70 in the fifth cycle. For LDC countries, the progression is 28 in the first cycle, 34 in the second, 39 in the third, 40 in the fourth, and 48 in the fifth cycle.

Annex

PROGRAMMING CYCLES

STRUCTURE OF PROGRAMMING CYCLES I - V



Explanatory notes

A. The core programme resources for each cycle are "re-based" to 100 and then divided proportionately into their various distribution components. Thus, the dollar magnitude of the cycles and their components cannot be compared.

B. Non-core programme resources for each cycle are shown as a percentage of core programme resources. Thus, in the fifth cycle, non-core programme resources are estimated to be 89 per cent of core programme resources.

/...

Programming cycles: Trends in major areas of IPF programming
(per cent share)

Programme classification	*1st cycle*	*2nd cycle*	*3rd cycle*	*4th cycle*	*5th cycle (estimated)*
Development planning	**7.8**	**10.1**	**9.3**	**14.1**	**10.4**
Development strategies and policies	2.2	2.4	2.6	2.5	6.4
Development planning	2.6	4.8	3.5	6.4	6.0
Public administration and management	2.5	2.6	2.7	4.4	5.8
Agriculture, forestry, fisheries	**27.9**	**28.2**	**24.5**	**22.3**	**22.3**
Crop protection	5.5	7.2	7.5	6.2	7.2
Agricultural support services	8.8	7.1	6.3	7.0	7.0
Forestry	3.9	3.7	3.2	2.8	1.8
Fisheries	3.7	2.6	3.2	2.8	3.4
Natural resources	**8.8**	**9.4**	**10.2**	**8.3**	**7.0**
Water	5.1	4.6	5.6	5.5	4.6
Minerals	3.0	3.2	2.8	1.9	1.3
Industry	**9.2**	**10.3**	**12.1**	**12.0**	**10.0**
Support services	6.3	6.3	8.2	9.3	8.3
Manufacturing	2.9	3.9	3.9	2.5	2.2
Health	**3.5**	**4.4**	**4.0**	**4.8**	**6.9**
Promotion and care	3.4	2.4	2.5	2.2	3.4
Disease prevention and control	1.1	1.4	1.6	2.0	3.3
Education	**10.2**	**7.6**	**6.4**	**4.5**	**4.3**
Employment	**6.4**	**6.2**	**5.4**	**6.1**	**6.9**
Policies and planning	0.8	1.1	1.0	1.0	1.0
Mgt. development; vocational training	4.7	4.6	3.2	2.7	2.6
Transportation	**7.8**	**6.5**	**6.1**	**6.8**	**3.7**
Policies and planning	0.7	0.5	0.7	0.8	0.6
Road	1.9	0.9	0.6	1.1	0.9
Water, shipping	1.3	1.4	1.5	1.0	0.6
Civil aviation	3.4	5.6	5.0	3.5	1.5
Trade	**1.8**	**2.4**	**2.8**	**4.0**	**3.2**
Global policies	0.5	0.7	0.8	1.0	0.9
Services, including tourism	0.3	0.4	0.5	1.0	0.8
Export development	0.8	1.1	1.2	1.8	1.3
Communications and information	**5.5**	**5.1**	**4.6**	**4.1**	**2.3**
Postal	0.7	0.8	1.2	1.0	0.4
Telecommunications	4.3	3.7	2.9	2.3	1.2
Science and technology	**3.4**	**3.7**	**5.3**	**4.8**	**2.8**
Meteorology	1.9	1.6	1.9	0.9	0.4
Development and transfer of technology	1.2	1.7	2.9	3.4	2.2
Human settlements	**1.6**	**1.5**	**1.1**	**1.4**	**3.1**
Settlements	0.2	0.3	0.2	0.3	1.4
Urban development	0.2	0.2	0.3	0.7	1.4
Other	**3.8**	**4.8**	**5.0**	**7.2**	**9.2**
Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***